

Exhibit 8

CONFIDENTIAL | NOVEMBER 2004



CONFIDENTIAL INFORMATION MEMORANDUM

CONFIDENTIALITY

This Confidential Information Memorandum (this "Memorandum") is based on information provided by Lightship Holding, Inc. and its wholly-owned operating subsidiary, Lightship Telecom LLC (collectively, "Lightship" or the "Company"). It is being delivered on behalf of Lightship by Q Advisors LLC ("Q Advisors") to a limited number of parties who may be interested in a potential strategic transaction with Lightship. The sole purpose of this Memorandum is to assist the recipient in deciding whether to proceed with a further investigation of the Company. This Memorandum does not purport to be all-inclusive or to contain all the information that a prospective acquirer may desire in investigating Lightship.

By accepting this Memorandum and in accordance with the Mutual Non-Disclosure Agreement signed prior to receipt of this Memorandum, the recipient agrees to keep permanently confidential the information contained herein or made available in connection with any further investigation of Lightship. This Memorandum may not be photocopied, reproduced, or distributed to others at any time. The recipient will promptly return all non-public material received from Lightship or Q Advisors (including this Memorandum) without retaining any copies thereof.

This Memorandum has been prepared for informational purposes relating to a potential transaction only and upon the express understanding that it will be used for only the purposes set forth above. Neither Lightship nor Q Advisors makes any express or implied representation or warranty as to the accuracy or completeness of the information contained herein or made available in connection with any further investigation of the Company. Each of Lightship and Q Advisors expressly disclaims any and all liability that may be based on such information, errors therein or omissions therefrom. The recipient shall be entitled to rely solely on the representations and warranties made to it by Lightship in any final transaction agreement.

In furnishing this Memorandum, neither Lightship nor Q Advisors undertakes any obligation to provide the recipient with access to any additional information. This Memorandum shall not be deemed an indication of the state of affairs of Lightship nor shall it constitute an indication that there has been no change in the business or affairs of Lightship since the date hereof.

This Memorandum contains certain financial projections and other forward-looking statements prepared by Lightship management. While management believes its assumptions to be reasonable, there can be no assurance that the projected results will be achieved, and there is a substantial likelihood that the actual results of the Company's operations will differ materially from the projections. The projections are included herein solely to give interested parties information concerning management's estimates of the scope of future opportunities based on certain assumptions. The projected financial statements have not been prepared by, reviewed or compiled by any firm of accountants.

Q Advisors is the exclusive representative of the Company in these matters. All communications, inquiries and requests for information relating to these materials should be addressed to Q Advisors personnel listed below, as representatives of the Company.

*Under no circumstances should the management or employees of
Lightship be contacted directly.*

Q Advisors LLC
Suite 350, 1900 Wazee Street
Denver, CO 80202
☎ 303.996.9660 | fax: 303.996.9661

Michael S. Quinn (ext. 117)
quinn@qlc.com
Brian Barnell (ext. 113)
Barnell@qlc.com
Chris Zook (ext. 114)
zook@qlc.com

Memorandum #: _____
Company: _____
Date: _____

TABLE OF CONTENTS

	<u>Page</u>
I. Executive Summary	
A. Summary Information	1
B. Strategic Considerations	5
II. Integrated Communications Provider Industry	
A. Industry Overview	8
B. Competitive Landscape	9
III. The Lightship Solution	
A. Business Strategy	11
B. Products and Services	13
C. Geographic Coverage and Network Architecture	17
D. Sales and Marketing	19
E. Customers	20
F. Strategic Initiatives	20
IV. Lightship Telecom	
A. Company History	23
B. Senior Management Team	23
C. Legal	25
D. Properties	25
E. Ownership	26
V. Historical and Projected Financial Statements	
A. Historical Financial Statements	27
B. Projected Financial Statements	30
C. Quarterly Projected Financial Statements	33
 <u>Appendices</u>	
A. Financial Projection Assumptions	36

*Confidential*

I. Executive Summary

A. Summary Information

This Memorandum provides interested parties with information regarding Lightship Holding Inc., and its wholly-owned operating subsidiary, Lightship Telecom LLC (collectively, "Lightship" or the "Company"). In evaluating a potential strategic transaction with the Company, the following should be considered:

***Business
Description***

Founded in 1998, Lightship is a leading facilities-based, integrated communications provider ("ICP") for small and medium-sized enterprises ("SMEs") in Tier 2 and Tier 3 markets in New England. The Company employs a proven T-1 bundled serving strategy to provide integrated voice and data services to its business customers in seven markets in five contiguous New England states (Maine, New Hampshire, Vermont, Massachusetts and Rhode Island), serving customers in more than 300 communities. The Company has grown rapidly and, as of September 30, 2004, had approximately 4,800 customers with over 81,000 access lines in service¹. The Company maintains four Nortel DMS Class 5 voice switches, four Lucent CBX 500 data switches and four customer co-location sites, and has co-located in 64 Verizon facilities.

Lightship generates solid customer and line growth by distinguishing itself from its competition by providing high quality, integrated communications services, excellent customer service and competitive pricing. Through the use of a "smart build" facilities-based network strategy, the Company has developed a network that achieves high service area coverage for its target customer base, covering more than 85% of such customer base. This comprehensive network gives both enterprise and wholesale customers an attractive alternative to Verizon, the incumbent local exchange carrier.

***Financial
Summary***

Unlike many of its competitors, Lightship's fiscal discipline and cost effective network have enabled the Company to weather the slowdown in the telecommunications sector over the past three years. Lightship anticipates 2004 revenue will grow to \$50 million which will generate approximately \$9.4 million in 2004 adjusted EBITDA. As of September 30, 2004, Lightship had \$4.8 million in cash, \$25.7 million outstanding under its credit facility with GE Capital and \$1.3 million of outstanding capital leases. Set forth below is a summary of the Company's historical and projected financial statements:

¹ Lightship defines access lines as one 64 kilobit customer line that is active and being billed. Unused capacity on T-1 circuits is not included in the Company's access line calculation.



Confidential

Table 1: Lightship: Summary Historical and Projected Financials
(US Dollars in Thousands)

	<u>2002A</u>	<u>2003A</u>	<u>2004E</u>	<u>2005E</u>	<u>2006E</u>	<u>2007E</u>
Revenue	\$27,421	\$42,756	\$49,820	\$59,339	\$75,538	\$90,417
Gross profit	12,931	25,992	28,895	34,386	44,568	53,961
% margin	47.2%	60.8%	58.0%	57.9%	59.0%	59.7%
EBITDA	(3,386)	5,434	8,013	11,822	18,357	25,630
% margin	-12.3%	12.7%	16.1%	19.9%	24.3%	28.3%
Adjusted EBITDA*	(2,691)	6,606	9,375	13,252	19,858	27,207
% margin	-9.8%	15.4%	18.8%	22.3%	26.3%	30.1%
Pretax income	(11,352)	(3,717)	(1,646)	1,706	7,177	13,279
% margin	-41.4%	-8.7%	-3.3%	2.9%	9.5%	14.7%
Access Lines	33,444	61,988	88,255	119,792	156,821	189,085
Employees	161	177	202	213	220	220

* Pro forma for capitalization of internal costs of new customer provisioning.

**Attractive
Target
Markets**

Lightship targets small and medium-sized businesses, generally defined as those with between ten and 500 employees, in Tier 2 and 3 markets in Maine, New Hampshire, Vermont, Massachusetts and Rhode Island. Lightship also provides services in larger New England markets including Boston, Massachusetts. These markets are often underserved by Verizon or Lightship's Competitive Local Exchange Carrier ("CLEC") competitors whose focus generally is on the larger Tier 1 markets. The Company's integrated communications solutions are especially appealing to businesses with multiple locations and complex networks. Lightship estimates that within the markets that it serves there are approximately 64,000 businesses that meet its target customer profile. These businesses have an estimated 1.6 million lines in service. With a network that covers over 85% of the potential customers in these geographic markets, Lightship is a leading regional carrier that provides SMEs and wholesale customers with an attractive alternative to the incumbent local exchange carrier and other CLECs.

Customers

The Company's target customer is a SME with multiple locations and a demonstrated need for an integrated voice and data communications solution.

The following represents a summary listing of Lightship's top ten customers by revenue for the nine months ended September 30, 2004. The Company's top twenty customers account for less than 15% of total revenue:



Confidential

Table 2: Lightship: Top Ten Customers – YTD 2004 (as of Sept. 30)
(US Dollars in Thousands)

<u>Company</u>	<u>Industry</u>	<u>Revenue YTD</u>
Customer 1	Telecommunications	\$ 368,409
Customer 2	Government	338,149
Customer 3	Waste Management	241,089
Customer 4	Government	234,457
Customer 5	Distribution	230,386
Customer 6	Real Estate	197,937
Customer 7	Education	175,999
Customer 8	Real Estate	144,391
Customer 9	Building Materials	106,342
Customer 10	Government	99,826

Lightship maintains strong relationships with its customers, as demonstrated by its monthly churn rate of approximately 1.3% (below the industry average of 1.5 – 2.0%), and the fact that approximately 80% of the Company's customers have contract lengths of two years or more.

***Serving
Strategy;
Products &
Services***

Lightship deploys a facilities-based T-1 provisioning strategy to meet the needs of its customers. With its 64 co-location facilities, the Company is able to quickly and cost effectively provision customers with an average service installation time of 26 days (34% less than the industry average of 40 days). Fewer than 15% of the Company's lines in service are served off-net so recent changes in the telecom regulatory environment that have negatively impacted other ICPs will have limited impact on Lightship. Lightship is currently migrating its remaining off-net lines onto its network and expects to have over 90% of its lines on-net by mid-2005. The Company continues to expand its footprint which will facilitate this on-net migration (see section III.F. "Strategic Initiatives" below).

The Company has succeeded by focusing on providing its customers with integrated service solutions that combine the various elements of voice and data services required by SMEs into a competitively priced package. These comprehensive service offerings appeal to and satisfy the communications service needs of the Company's customer base.

The various components that Lightship offers as part of its integrated service offerings are grouped into the following five main categories:

- **Voice Services.** In addition to traditional local phone service and long distance, Lightship provides value-added services such as conference calling, calling cards, toll-free service, Centrex and voice mail;
- **Data Services.** Lightship provides a wide array of data products at various speeds and price points attractive to SMEs, including: High Speed Bandwidth, Dynamic Bandwidth Allocation, Frame Relay,



Confidential

Point to Point (Private Line), and Wide Area Network (WAN);

- **Dynamic Bandwidth Allocation.** The Lightship Advantage (Voice over Asynchronous Transfer Mode, or "VoATM") solution allows T-1 customers to fully utilize all channels available to them. The Lightship Advantage dynamically allocates available bandwidth between voice traffic and data traffic, based on utilization and availability;
- **Internet Services.** High speed Internet access, wireless Internet, Dynamic Bandwidth Allocation, Point to Point, dial up access, hosting (Web hosting, Domain hosting, and FTP hosting), bandwidth reports, email and webmail, spam filtering, router management, and managed modem service; and
- **Related Services.** Equipment co-location, comprehensive integrated billing, and personalized customer service.

Lightship also provides wholesale services to carriers terminating traffic in Lightship's service territory but such wholesale services account for less than 5% of the Company's total revenue.

Strategic Initiatives

Building on its success to date as the low cost, high margin bundled service provider to SMEs, Lightship has begun to implement initiatives that will further deepen its regional presence and position Lightship as the premier broadband provider in New England (see section III.F. "Strategic Initiatives"). These initiatives include:

- **Network Expansion.** Lightship has identified more than 100 additional co-location sites within its current geographical footprint that it is in the process of adding to its existing network.
- **Off-Net Line Conversion to On-Net.** As a result of bringing the majority of the lines currently served off-net onto its network, the Company will receive increased Carrier Access Billing Systems ("CABS") revenues and see a reduction in operating costs.
- **Alternative Provisioning Methods.** Lightship has begun deploying DSL in all of its existing co-location facilities. Lightship has also begun to provision select customers with Enhanced Extended Links ("EELs") which offer significant savings over the Special Access rates that Lightship currently uses to provision customer services.

These initiatives will increase the Company's annual EBITDA by approximately \$1.3 million in 2005, with increasing cost savings, EBITDA gains and substantial new revenue opportunities in 2006 and beyond.

*Confidential****Ownership /
Capitalization***

Since its founding by current members of the management team in 1998, the Company has attracted investment from a strong group of equity sponsors, including JP Morgan Partners and Megunticook Management. Lightship also maintains a solid financial relationship with GE Capital, which is the Company's senior secured lender.

Employees

At September 30, 2004, the Company employed 201 full-time professionals, with approximately 80 employees in sales and marketing related positions.

B. Strategic Considerations***The
Lightship
Opportunity***

Lightship has developed into the premier ICP serving small and medium sized businesses in New England. This is largely the result of:

- Dedicated focus on serving SME customers via a T-1 bundled solution;
- Facilities-based network covering more than 85% of target customers within the Company's regional markets;
- Superior customer service;
- World class management team; and
- Prudent growth strategy and sound financing decisions (e.g., Lightship's preparation of a return on investment analysis prior to making pricing offers to any customer).

The Company represents an immediate and attractive opportunity for any service provider that is looking to enter or reinforce its position within New England.

***Industry
Leading
Financial &
Operating
Metrics***

Lightship is one of the few—if not the only—ICPs that has been able to achieve EBITDA profitability on a revenue base of less than \$100 million. The Company's current gross margins of 58% and its adjusted EBITDA margins of approximately 19% rival or exceed those of much larger players that have the benefit of scale. The Company achieved this unique margin and profitability position by reinforcing its leadership within its operating footprint and by focusing its sales efforts on potential customers that could be served over its existing network. In addition, the Company has created a very efficient back office that utilizes Lightship's proprietary Admin system to streamline operations and processes.

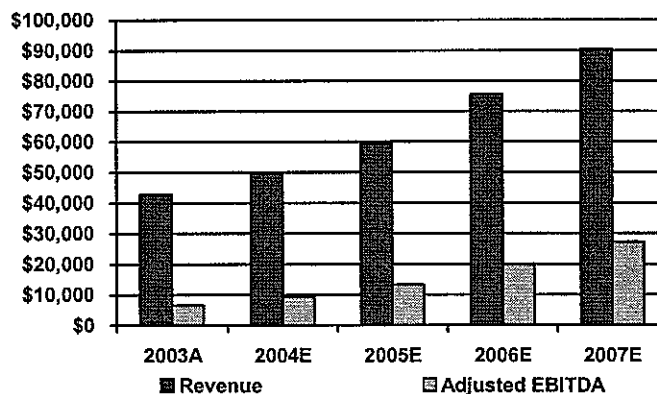
Lightship's focused approach has resulted in compound annual revenue growth of 35% from 2002A to 2004E, competitive with, if not exceeding, its peer group. From 2003A to 2004E, adjusted EBITDA growth was approximately 42%. Management believes that the Company's Strategic Initiatives involving provisioning via DSL and network grooming will improve this performance, adding approximately \$1.3 million to annual EBITDA in 2005, with increasing

*Confidential*

EBITDA in future years as the Company benefits from new revenue opportunities and the impact of these costs savings on a larger customer base.

Chart 1: Lightship: Financial Performance

(US Dollars in Thousands)



***Highly
Productive
Sales Model***

Lightship's disciplined sales system has created one of the most aggressive and highly productive sales forces in the industry, with average monthly line sales per rep in 2004 of approximately 53, well over the industry average. This efficiency is a result of a focused regional approach, with each sales office developing a thorough knowledge of the needs of the industries located within its territory. The Lightship sales effort also benefits from the contributions of three active wholesalers and 43 active agents, whose contribution to revenue and operating margin have been continually improving over the last few years.

***Loyal
Customer
Base***

Lightship has demonstrated an outstanding record of retaining customers. Approximately 80% of customers have contract lengths of at least two years. The average customer has a contract length of 2.2 years. Lightship's high quality and comprehensive product solutions and outstanding customer service have resulted in a very loyal customer base. The Company's monthly rate of churn of 1.3% has historically been and remains well below the industry average.

***Solid
Platform for
Growth***

With a facilities-based network in five contiguous states in New England covering more than 85% of all target SME customers, Lightship has established a leading service platform that is poised for growth through continued penetration of existing territories and planned geographic expansion. Lightship's continued growth will be driven by the following:

- Further penetration of the Company's Rhode Island market, launched in 2004;

*Confidential*

- Ability to service an increasing number of businesses at a lower cost as a result of additional co-location facilities; and
- Enhanced product suite offerings (DSL and repackaged T-1 offerings)

Lightship's comprehensive network footprint not only provides excellent penetration of the SME marketplace in its existing markets but makes Lightship an attractive partner to emerging VoIP providers, other alternative carriers and agents that will require complete broadband access to service their customers.

***Leader in
Attractive
Market***

Compared to many other regional markets throughout the U.S., New England remains highly fragmented. With the exception of the incumbent local exchange carrier, Verizon, Lightship is the only ICP that offers voice and data solutions to SMEs in all the markets in which it operates.

***Transaction
Rationale***

Lightship continues to implement both organic and acquisition growth strategies and has identified a number of complementary acquisition candidates to further its growth strategy.

Management and Lightship stakeholders believe, however, that now is also the opportune time to explore whether the Company's leading regional position, solid SME customer base and position in a rapidly consolidating market sector may be better leveraged as part of a larger organization with broader capabilities and presence.

Lightship recognizes the advantages that greater scale might bring. To this end, the Company has engaged Q Advisors to assist in the process of identifying strategic alternatives for the Company.



Confidential

II. Integrated Communications Provider Industry

A. Industry Overview

The provision of voice and data communications services—including local and long distance phone service, high speed digital Internet access, hosting and other managed services—to small and medium-sized enterprises encompasses a broad market opportunity. Today the industry is characterized by service providers competing within defined geographic markets on the basis of product positioning, price and customer service. Lightship's regional geographic market approach and target customer base provides the Company with a strong brand identity in its markets. With an understanding of these forces and its strategic vision, Lightship is operationally and financially positioned to benefit from a number of emerging industry trends.

Market Trends and Drivers

After several years of uncertainty, the telecom markets are entering a period of solid growth. Spending on telecom services is on the rise once again as SMEs have begun to deploy new integrated communications services. These initiatives had generally been shelved during the recent period of economic uncertainty. Some of the specific trends driving the market include:

- **Consolidation.** Within this environment of increased spending, a more concentrated group of service providers remain to reap the benefits. As the equity markets began declining in early 2000 and capital became less accessible to capital-intensive telecom companies, more than 70 CLECs that could not cover their costs either combined or went out of business. The survivors of this shakeout, such as Lightship, have better business models, better customer value propositions and more viable capital structures.

"CLEC survivors are finding a ready market among SMBs looking for reliable and inexpensive network services. As a result, Meta Group expects CLECs to double their market share, from 4.3% to 9% in two years, even though the number of CLECs has been cut by 40%."

- Source: Mass High Tech, June 9, 2003

- **Regulatory Uncertainty.** Uncertainty surrounding mandatory unbundling of network components owned by incumbent telecom companies has been an overhanging issue that has inhibited capital investment and strategic activity in the market over the past few years. Recent judicial and regulatory rulings regarding the unbundling of network elements ("UNE") have called into question the viability of telecom companies that have structured their business models purely or primarily around leasing UNE infrastructure elements from incumbent network operators.

While service providers employing UNE-P models appear to be at risk, facilities-based carriers such as Lightship could potentially benefit as UNE-P providers seek networks. Given Lightship's extensive facilities-based network in New England, the Company would be an ideal alternative to Verizon for a network solution to UNE-P focused service providers.

- **Increasing Demand for Data.** SMEs throughout New England continue to expand and deepen their reliance on networking and data products. As a result, the demand for data



Confidential

services is becoming a significant factor driving market growth. To succeed in the market for data services, competitors will be required to develop cost structures that enable the delivery of data services with minimized costs and high margins.

- **Emergence of VoIP.** VoIP will eventually become the dominant phone technology. Once VoIP gains wider acceptance, service providers will provide three discrete service offerings: data, IP Centrex, and termination of non-VoIP calls. It will be necessary for ICPs to provide all three offerings effectively and at low cost to be successful.

Lacking their own infrastructure, emerging VoIP providers will need to bundle data access with their offerings, thereby creating a revenue opportunity for operators with existing infrastructure such as Lightship. This trend also underlines the importance of developing a comprehensive regional network, as agents and vendors of VoIP services will want to consolidate their sourcing of broadband access and thus will look to providers that can offer broad market coverage throughout New England.

- **Convergence.** Many providers are looking beyond the traditional bundled access product in order to drive revenues and differentiate themselves from the competition. Specific offerings that many have begun providing include VoIP, managed services, the offering of Customer Premise Equipment and other comprehensive solutions that include network design and optimization as well as physical installation.

These services are aimed at creating cost savings that can be passed on to the customer by leveraging the providers' existing infrastructure and customer base. The provisioning of these services by ICPs reduces the customers' dependence on LAN/IT vendors and internal staff by providing a comprehensive solution from a trusted source.

These opportunities have become achievable today for service providers such as Lightship due to the continued maturation of technologies which enable applications previously located within the customers' network (email, security, LAN management and monitoring, IP Centrex, and voicemail) to be provided effectively on a remote basis with fixed monthly pricing. The key catalysts that are making this opportunity a reality include:

- VoIP, which enables the integration of voice and data applications;
- WiFi, which allows LAN deployment without labor-intensive wiring;
- Simple Network Management Protocol ("SNMP"), which allows for remote device monitoring and management; and
- Increasing demand for inter-networking by SMEs – requiring sophisticated communications applications and infrastructure.

B. Competitive Landscape

In New England, there are relatively few telecom companies competing for customers in the SME market in Tier 2 and Tier 3 locations. The Company's primary competitor in this region is Verizon, the incumbent Regional Bell Operating Company ("RBOC"). Verizon maintains a majority market share in each of the markets in which Lightship offers its services. Lightship also relies on contractual arrangements with Verizon in order to provide services to its customers through the usage of Verizon's network infrastructure. Lightship co-locates its access equipment in Verizon's end offices to aggregate and transfer customer traffic between its network and the public switched telephone network ("PSTN").



Confidential

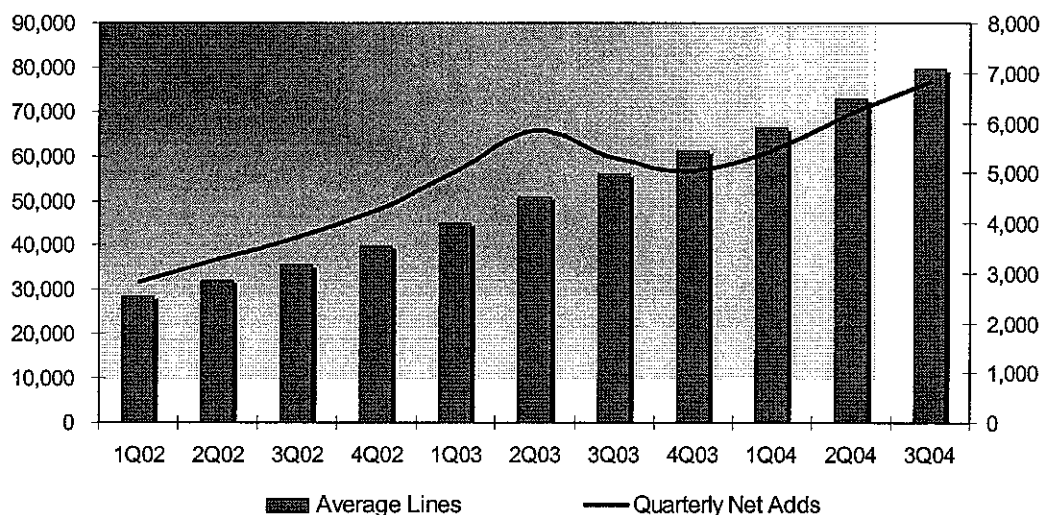
Lightship also faces competition from other CLECs that have presence in its markets. Most of these companies have network footprints that overlap Lightship's in some markets, although none cover New England as extensively as Lightship. While some of these competitors have broader geographic reach than the Lightship network, no one has co-location facilities that offer regional penetration as deep as the Company throughout New England. The following table provides a list of service providers that operate within Lightship's footprint.

Table 3: Lightship: Selected Lightship Competitors

XO (Allegiance)	Conversent
AT&T	CTC Communications
Broadview	PAETEC
Choice One	Verizon

Lightship believes that it effectively competes with both the RBOC and its CLEC competitors because of its better knowledge of both its markets and the needs of its customer base. Lightship's superior customer service, accurate billing and solutions offerings, and to a lesser extent competitive pricing, has enabled the Company to maintain its market position and increase its customer base at the expense of its competitors.

Chart 2: Lightship: Growth in Average Billable Lines



In addition to the larger regional CLECs and the RBOC, the New England markets include several smaller telecom providers that have limited presence in either a single city, state or region in a single state. Lightship believes that competitors such as Sovernet in Vermont, Bay Ring in New Hampshire and Mid Maine Communications in Maine can not provide the depth of products or services provided by the Company. Such entities are attractive acquisition targets for Lightship as it continues to expand its regional footprint.



Confidential

III. The Lightship Solution

A. Business Strategy

Employing a "smart build" strategy, Lightship has focused on providing superior integrated communications bundles with high levels of customer service to SMEs throughout New England. The elements that comprise this strategy are described in more detail below.

Integrated Communications Solution Targeted to Small and Medium-Sized Enterprises.

Lightship focuses on offering bundled communications services and solutions to SMEs located within its operating footprint. The Company has achieved significant success in the marketplace with its integrated T-1 product bundle that provides voice and data services in a single solution (see section III.B. "Product and Services" below). The bundled product provides the customer with a single point of contact for all communications needs as well as incorporating all services within a consolidated account statement.

The geographic markets in which Lightship offers its services have high concentrations of small and medium-sized businesses. The SME market segment represents the greatest opportunity for continued growth as it generates the majority of telephone service revenues. Lightship's addressable market of companies with ten to 500 employees is estimated at over 64,000 businesses representing approximately 1.6 million lines. Lightship's current regional market share is estimated at 4% and continues to grow.

By providing a bundle of voice and data services that specifically caters to the needs of small and medium-sized businesses, Lightship has a competitive advantage over products offered by its competitors, which tend to be generic and not specifically focused on the needs of this SME customer base.

Strong Regional Focus. Lightship's focus on serving customers in Tier 2 and Tier 3 markets of New England provides it with a competitive advantage. Although the communities that the Company has identified in this region have high concentrations of small and medium-sized businesses, these business customers are often underserved by the RBOC and other service providers that tend to be more focused on Tier 1 metropolitan markets. Lightship's positioning as a provider of high quality integrated services with significant presence in these territories has given it an edge against other less focused competitors.

Superior Customer Service. Lightship prides itself on superior customer satisfaction and views this as one of the Company's chief differentiators. The Company recognizes that providing quality customer service is essential to offering a superior product and service offering to its customers and creating customer loyalty.

"Working with Lightship has been one of the best and most productive experiences we've ever had. There are still amazing companies out there willing to serve."

-Josh Garza, Optima Computers

- **Timely and Accurate Provisioning.** A leading element of this customer service excellence is the effective management of the provisioning process for new customers. Lightship has a standardized service delivery process and consolidated service delivery centers, which significantly reduce provisioning intervals and improve provisioning quality metrics. In addition, through electronic order interfaces with the incumbent carrier, the



Confidential

Company has been able to substantially reduce the time, number of steps and duplication of work typically involved in the provisioning process.

This efficiency is best evidenced by the Company's average T-1 provisioning time, which at 26 days is nearly two weeks (or 34%) less than the industry average of over 40 days. Moreover, 92% of customers have their service up and running in less than 45 days. Customers consistently find that the Lightship implementation team ensures smooth and timely installment of services. Lightship's sales and services team manages the migration of existing services from data and information gathering through installation and service activation.

- **Quality Customer Care.** Lightship has a professionally trained workforce that is focused on ensuring customer satisfaction. At the forefront of the Company's service effort is Lightship's Implementation Management Group ("IMG"), which is responsible for maintaining communication with the customer to ensure that each step of the service delivery process is handled appropriately. For each new customer, Lightship dedicates an IMG service representative to coordinate the various processes and functions necessary to successfully provision services to the customer. From the involvement of the provisioning, field tech and service personnel and billing functions to the required interaction with the customer's existing voice and data service vendors, the IMG representative manages each element of the service delivery process.

The Company operates one primary call center in Bedford, New Hampshire that handles billing, customer care and related issues for all customers on a 24/7 basis. The call center is able to deliver high levels of first call resolution due in large part to an enhanced automated call distribution system that directs callers into the customer service center based on the type of question they have, and also based on the contributions of specially trained agents with the tools to resolve customer issues. Service representatives have access to all the necessary components of the operations support system to gain immediate access to customers' data, enabling quick responses to customer requests and needs at any time. This system also enables the creation of fully integrated monthly billing statements for all communication services.

- **Accurate and Easy to Interpret Account Information.** A key service differentiator for which Lightship has received high recognition is the unified billing statement it provides to its customers. Billing statements can be provided in traditional paper format, or can be accessed online via a flexible, feature rich, best of class system that Lightship developed in concert with CallVision. With the online billing feature, customers can create customized analysis and reports to fit their specific needs, or utilize an array of pre-defined usage reports, charts and graphs tailored for small and medium-sized businesses. Each customer billing statement contains an easy-to-read traffic audit report with complete graphical and statistical information. The statement is simple to understand, incorporating an itemized summary of charges, calls per line or calling card, calls per account or project code, monthly usage by call type, and a list of the five most expensive calls, five longest calls, and five most frequently called area codes.

Lightship ensures the accuracy of the invoices it sends to its customers by maintaining the billing function in-house. The Company has been operating this process internally since February 2003. Lightship believes that in order to maximize customer retention, telecom companies must provide their own switching capabilities and control the billing process.



Confidential

Only by meticulously controlling customer call records can a service provide maximum value to its customers.

- **Dedicated Support.** Lightship employs a team of 23 field technicians and two dispatch technicians to provision new customer facilities and to maintain and repair existing facilities that experience trouble. Additionally, the Company has five customer account managers in the field coordinating with a seven member in-house customer service team.

Among the methods by which the Company tracks customer satisfaction, observing customer "churn" trends has proven most effective. Churn is defined as the percentage of lines that are disconnected monthly. The Company's average monthly churn for business lines during 2004 has been approximately 1.3%. This figure has been relatively steady over time, and remains below the industry average of 1.5% - 2.0%. The Company attributes its success in minimizing churn to the creation of efficient work processes through the provisioning cycle and strong customer support.

Capital Efficient and Optimized Network Infrastructure. Lightship has pursued a "smart build" facilities-based network strategy of purchasing and installing switches, co-locating in Verizon's end offices and leasing local and transport telephone lines. This strategy has provided the Company with a network footprint that is complete and operational, covering more than 85% of the potential customers in the Company's target markets. As a result, the majority of Lightship's traffic and revenue is on-net, allowing the Company better control over its pricing and costs, giving it industry-leading margins and a significant advantage over competitors that rely on UNE-P and resale pricing from the incumbent. The Company's strategy going forward is to continue to maximize the investment in this infrastructure and increase market share in its service areas.

In addition, Lightship continuously evaluates the cost and benefits of investing in additional infrastructure (co-location facilities) to groom its network where customer density is great enough to justify the additional capital outlay. Lightship has identified over 100 co-location sites within its current geographic footprint that it has begun incorporating into the Company's network. Management believes that the inclusion of these sites into the Lightship network will add an additional \$1.3 million in annual EBITDA starting in 2005, with increasing EBITDA in future years as the Company benefits from the impact of these costs savings on a larger customer base.

B. Products and Services

Lightship provides to its customers a wide set of integrated voice and data products and services. The Company's services are generally delivered as a bundled solution, or can be conveniently packaged or purchased as stand-alone products. Lightship groups its services into four main categories: Voice Services, Data Services, Internet Services and Related Services. These categories and the specific offerings available under each are described in the following sections:

Voice Services

The Company provides voice solutions via two service packages:

- **Lightship Direct.** This product provides voice services via the Company's facilities-based proprietary switching network in the five states where Lightship operates. Lightship

*Confidential*

Direct provisions a dedicated T-1 circuit directly to SME's premises. Internet and data services can also delivered via this T-1 connection; and

- **Lightship Business Plus.** Should these lines not be in the Company's co-location footprint, Lightship is able to deliver voice services off-net with the full support of Lightship's superior customer service.

Table 4: Lightship: Voice Services

Local Dial Tone	Customized solutions for each customer's requirements Flexpath in partial T-1 configurations Centrex
Long Distance	Intrastate and interstate domestic calling International long distance Convenience of one bill for both local and LD
Value Added Features	Conference Calling Voice Mail Toll Free (1-800) Services Calling Cards

Data Services

Lightship's data service offerings are designed to provide a full range of services to its customers. The Company offers high-speed data transmission services, such as dedicated and broadband Internet access, and also provides and supports e-mail and web-hosting services. Data services are offered at transmission speeds of 64Kbps and higher. Lightship's Data Service products are described in the following table:

Table 5: Lightship: Data Services

High speed bandwidth	Available in increments of 64K from 64K to a full T-1 circuit and above
Frame Relay	Joins various physically separated facilities into one network through creation of a wide area network ("WAN") configuration Available in increments of 64K from 64K to a full T-1 circuit and above
Private Line/Point to Point	Effective for joining the technology networks of two physically separated facilities, with enhanced transmission security via virtual private networks ("VPN") provisioned with T-1 through 155Mb OC3 circuits
Wide Area Network	Created via Frame Relay or Point to Point

- **Dynamic Bandwidth Allocation.** Lightship is the only ICP in its markets to offer "ATM to the Edge" throughout its operating footprint. As a result, the Company's T-1 customers are now able to take advantage of dynamic allocation of bandwidth between voice and data applications to optimize all the channels available to them. The Lightship Advantage



Confidential

product gives voice requirements first priority, and then allocates all remaining unused capacity toward Internet and data, making for an efficient and cost effective solution.

Lightship deploys the Paradyne Jetstream Media Gateway to execute its dynamic bandwidth allocation. This technology provides seamless transition from TDM to packet-based services and delivers 200% more bandwidth than TDM-competitors supporting ATM and Internet protocol in the same platform.

"Dynamic bandwidth allocation is a tremendous service; it gives us much higher productivity and significant efficiencies, both of which contribute to the bottom line."

-John Devine, President, Devine Systems

Internet Services

Lightship's network offers access to the Internet in a variety of ways, allowing customers to choose the most appropriate solution based on features and price. As a result, Lightship's Internet offerings can be customized to suit either an unsophisticated first time user or a technologically sophisticated IT manager.

Table 6: Lightship: Internet Services

Dedicated Internet Connectivity	Internet bandwidth is available in increments of 64K and above
Wi-Fi	Customized Wi-Fi installation
Dial-Up Accounts	Dial up access available at speeds up to 56K Static IP addresses available
Basic E-mail	LAN or WAN-based email access Self-managed access 10MB mailbox space Supports up to 100 mailboxes Supports attachments of 10MB maximum per mailbox Supports any SMTP/POP3 compliant email clients Router management, installation and support
EZ Mail (webmail)	Web-based email access Self-managed access 20MB email space Attachments of 10MB maximum per mailbox Spam filtering included
Web Hosting	Basic <ul style="list-style-type: none"> • Suitable for sites with static pages • Includes 40 MB server space Advanced <ul style="list-style-type: none"> • Suitable for sites with dynamic content and ecommerce • Includes 100 MB server space



Confidential

	Advanced Plus <ul style="list-style-type: none"> Includes 250 MB server space
Bandwidth Monitoring	Graphs are provided free to all customers with dedicated Internet access Reports show utilization in intervals of five minutes, one hour, one week, and one month Advanced features available: <ul style="list-style-type: none"> Incoming and outgoing traffic Most common page views, hits, visits Referring sites and browser operating systems
Managed Modem	Modems in 10 port increments Displays current users & usage history via web interface Includes dial up internet access Includes local access dial up numbers

Other Related Services

Lightship also leverages its significant network and operational infrastructure to generate additional revenue opportunities. Specific examples are detailed in the following table:

Table 7: Lightship: Other Related Services

Co-location	Guaranteed Power Plan (DC Power, Uninterrupted Power Supply, Backup diesel generator) Fire Suppression Facilities Building Security 7 x 24 Video Monitoring Climate Control
Invoicing	Lightship invoicing is available on-line (soft copy) or on paper (hard copy). Invoice detail includes: <ul style="list-style-type: none"> Complete monthly traffic audit Outbound & Toll-Free usage Itemized summary of charges Calls per line Calls per calling card Calls per account or project code Monthly usage by call type Most expensive calls Longest calls Most frequently called numbers
Additional Services	Live-person assistance for service questions, add and change requests, conference call scheduling, invoice explanation, and technical service questions

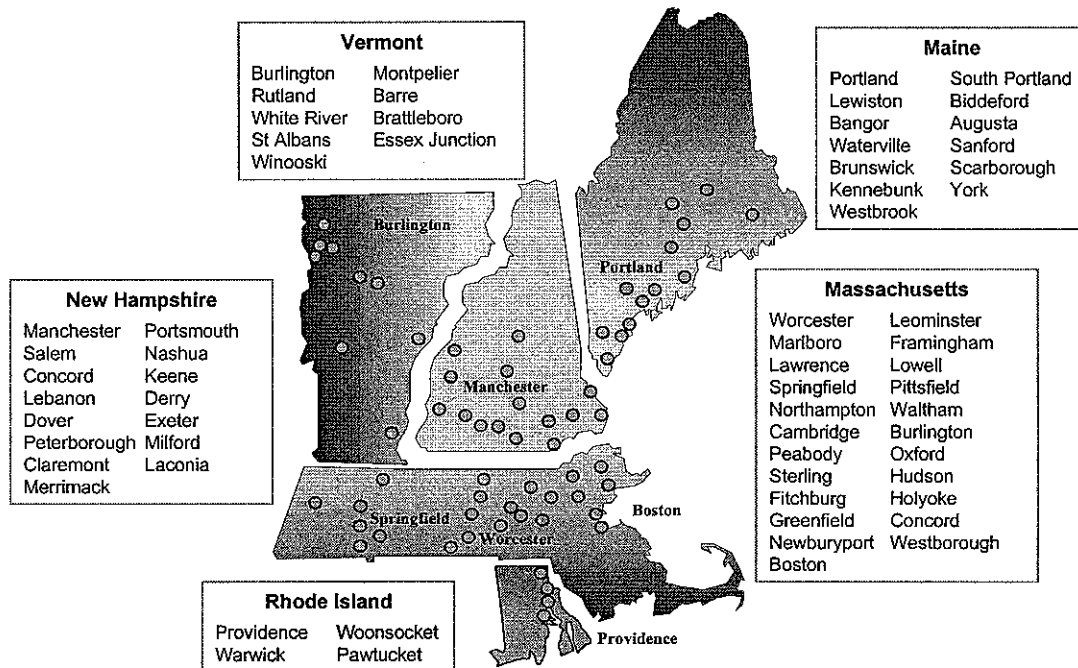


Confidential

C. Geographical Coverage and Network Architecture

Lightship's network provides coverage of over 85% of its target SME customers in its current market coverage area. The map below identifies the Company's geographic markets and displays the co-location facilities it maintains.

Chart 3: Lightship: Geographic Coverage



Network Architecture

Lightship employs a traditional T-1/voice over ATM serving strategy that allows the Company to provide its customers with customized, reliable integrated solutions for all of their voice and data communications requirements. Lightship has deployed four Nortel DMS 100 Class 5 switches in Manchester, New Hampshire; Portland, Maine; Burlington, Vermont; and Worcester, Massachusetts to create flexible platforms to provide integrated products and services. The Class 5 voice switches provide the functionality to support full-featured voice services, as well as the necessary interfaces to the public switched telephone network, using standard interfaces such as the SS7 signaling network and 911 signaling to emergency agencies.

Lightship has also deployed Lucent CBX-500 and PSAX ATM switches throughout the Company's network switching centers. As a result, Lightship's ATM and Frame Relay network is capable of interstate connectivity.

The Company's customer co-location facilities are designed around the Lucent Packet Star PSAX 1250 and CBX-500 Multi-service WAN switches. These devices are the foundation for next generation networks that will provide a totally converged network that is scaleable to the



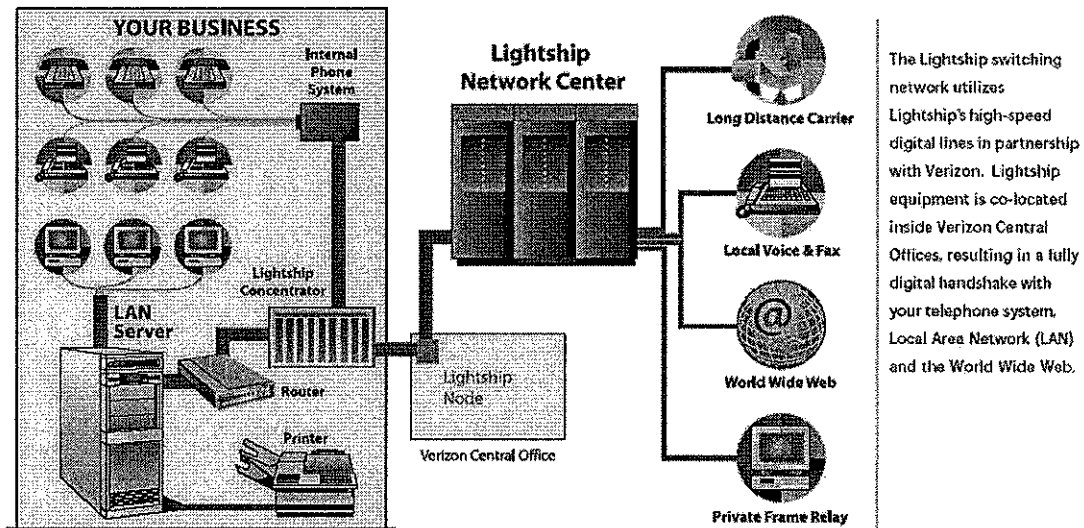
Confidential

end user. This infrastructure allows Lightship to leverage built-in intelligence and provide the most reliable and fault tolerant devices on the market today.

Data Network

Lightship has two OC-3 connections at the two public Internet Network Access Points ("NAPs") in Massachusetts. These facilities and all of Lightship's switching locations run BGPv4 (ASN 7956) and OSPF adjacencies, enabling Lightship to provide 99.95% uptime to its customer base. To further ensure quality of service, Lightship's network employs fail-over circuits in its co-locations. These circuits offer automatic fail-over should a backbone circuit fail.

Chart 4: Lightship: Network Architecture



Operational Support Systems ("OSS")

Information Systems and Procedures. A primary element of the Company's OSS and back office systems is its proprietary "Admin" application, which has been designed to facilitate smooth, efficient order management, provisioning, trouble ticket management, billing and collection, and customer care processes. Admin also integrates with other existing external systems, including billing applications developed by EUR Systems (Aptis and Advantacs), Intrado E911 management, and Granite Network Inventory, to help manage workflow from provisioning to customer service. By integrating the features of these state-of-the-art systems for use through the Admin interface, Lightship maintains the ability to customize its OSS to meet evolving customer and business process needs. These systems and procedures provide Lightship with a comparative advantage in internal efficiency and communication with customers over other service providers. Most of Lightship's competitors employ legacy systems that generally depend on labor-intensive and error-prone manual entry of customer information to accomplish order management, provisioning, switch administration and billing.

*Confidential*

Since February 2003, Lightship has operated all billing functions in-house. Controlling the billing information it provides to its customers is a primary element of the Company's overall focus on quality customer service.

The following table shows Lightship's principal back office and information systems currently in place:

Table 8: Lightship: Back Office and IT Systems

<u>Function</u>	<u>Vendor/Product</u>
Billing and accounts receivable	EUR Systems - Aptis
Carrier access billing	EUR Systems - Advantacs
Inventory, order management workflow	Lightship - Admin (internally developed)
Financial reporting	Great Plains
Network inventory and circuit management	Granite Systems
Trouble ticket and call center management	Lightship - Admin (internally developed)

D. Sales and Marketing

Lightship acquires new customers primarily through its dedicated sales representatives who personally work with customers to find the best solution for their unique communications needs. Lightship's direct sales staff is divided into seven regional offices within three regions in order to assess and capitalize on local market knowledge and relationships. One Regional Sales Director manages each region and one Branch Manager, who reports to the Regional Sales Director, manages each of the branches. The Company's 61 active direct sales representatives are located in the following offices:

Table 9: Lightship: Sales Staff by Region

<u>Region</u>	<u>Branch</u>	<u>Number of Sales Staff</u>
Eastern	Waltham, MA	9
	Cumberland, RI	7
	Bedford, NH	13
Western	Williston, VT	4
	Springfield, MA	8
	Worcester, MA	7
Northern	Portland, ME	<u>13</u>
Total		61

Lightship benefits from one of the most aggressive and highly productive sales force in the telecom industry with average monthly line sales per representative of approximately 53 in 2004, well over the industry average. Lightship attributes this productivity to the superior

*Confidential*

knowledge of the customer base and their specific communications needs as well as its sales force's understanding of the local SME marketplace.

Lightship also benefits from three active wholesalers of Lightship services and 43 agents aggressively selling the Company's products. The wholesale and agent channels are managed by one Manager of Alternate Channels. In order to maintain and grow revenue from its existing base, Lightship utilizes a Direct Channel Manager, who up-sells and renews contracts for accounts no longer assigned to an active Lightship sales representative or agent, and a Manager of Sales Operations and Support, who overlooks the Sales Support and Agency Support team as well as acts as a liaison to Marketing and other internal departments.

Lightship recently launched a new agent partner intranet facility to facilitate additional indirect sales which in 2004 will account for approximately 4% of revenue.

E. Customers

Lightship's customers are SMEs in the Tier 2 and Tier 3 commercial markets in New England. The Company's target customer is generally a business that has more than one office and demonstrated a need for an integrated voice and data communications solution.

The following represents a summary listing of Lightship's top ten customers by revenue for the nine months ended September 30, 2004. The Company's top twenty customers account for less than 15% of total revenue:

Table 10: Lightship: Top Ten Customers – YTD 2004 (as of Sept. 30)
(US Dollars in Thousands)

<u>Company</u>	<u>Industry</u>	<u>Revenue YTD</u>
Customer 1	Telecommunications	\$ 368,409
Customer 2	Government	338,149
Customer 3	Waste Management	241,089
Customer 4	Government	234,457
Customer 5	Distribution	230,386
Customer 6	Real Estate	197,937
Customer 7	Education	175,999
Customer 8	Real Estate	144,391
Customer 9	Building Materials	106,342
Customer 10	Government	99,826

Lightship's commitment to excellent client service has resulted in low churn and significant customer retention. Lightship's average customer contract is for 2.2 years, and approximately 80% of all customers have contract lengths of at least two years. The Company's average revenue per line ("ARPL") in 2004 (through September 30th) was \$57.23. Average lines per Lightship customer have been 18 in 2004.

F. Strategic Initiatives

Building on its success to date as the low cost, high margin bundled service provider to SMEs, Lightship continues to deepen its operating footprint throughout New England. The Company



Confidential

continues to look for growth opportunities while refining its operating cost structure to enhance the Company's position as the premier low cost alternative to Verizon. A larger, deeper network footprint not only provides greater penetration of the SME marketplace in the Company's operating footprint but makes Lightship an attractive partner to emerging VoIP providers, other alternative carriers and agents that will require complete broadband access to service their customers.

Lightship has begun to implement the following initiatives in order to take advantage of specific market trends and growth opportunities identified by management (see section II.A. "Industry Overview"). Such initiatives have been incorporated into the Company's financial plan.

Lightship projects that as a result of its network expansion plan, it will significantly grow top line revenue because of its lower cost structure and deeper network coverage. In addition, as a result of the initiatives outlined below, the Company projects that it can add \$1.3 million in annual incremental operating cash flow associated with such initiatives in 2005. This figure is expected to grow substantially in future years as the Company recognizes these costs savings over a larger customer base and realizes additional revenue opportunities.

The expansion of the Company's co-location footprint is estimated to require approximately \$5.5 million in additional capital expenditure.

- **Network Expansion.** In order to further strengthen its position as the premier alternative to Verizon in Tier 2 and Tier 3 New England markets, Lightship continues to expand its current footprint by adding new co-location facilities. Lightship is in the process of increasing its number of co-location facilities from 64 to 164.

By expanding its co-location footprint, Lightship will be able to provision substantially all of its customers currently serviced off-net (currently less than 15% of total lines) over its own network. In addition, the Company will generate additional cost savings as a result of reducing the average mileage of its T-1 access facilities.

The Company estimates that as a result of this network expansion it will also increase incremental agent sales by 1,200 lines a month. In addition, Lightship anticipates that its newly packaged T-1 offering which is based on its low cost platform, will result in approximately 500 incremental lines a month.

- **Off-Net Line Conversion to On-Net.** A component of the Company's cost savings and revenue enhancing initiatives involves the conversion of off-net lines to on-net lines. The increase in revenues is related to the capture of CABS revenues and FCC fees otherwise not available while these lines were provisioned off-net. The costs savings are the result of eliminating the switching components of off-net lines and higher cost of resale elements and as a result of lower cost of minutes.
- **Alternative Provisioning Methods.** DSL technology has matured significantly in the last few years and now has reliability characteristics that make it suitable for business customers. In order to better service all potential customers within its operating footprint and to continue to manage costs, Lightship is deploying DSL at all its existing co-location facilities. DSL monthly recurring costs to Lightship are about 25% of the cost of a T-1 and can provide the same level of high quality service and bandwidth where qualified.



Confidential

Lightship has also begun to provision customers with EELs, which offer a monthly recurring savings of approximately 36% below the Special Access rate T-1s that Lightship currently uses to provision customer services. EELs provide a low cost T-1 level provisioning method for wire centers where Lightship does not have the customer density to justify building a co-location.

This significant network expansion, consisting of 100 new co-locations and the deployment of DSL to 164 co-locations will provide Lightship with nearly complete broadband coverage in New England with access to the lowest cost provisioning method.



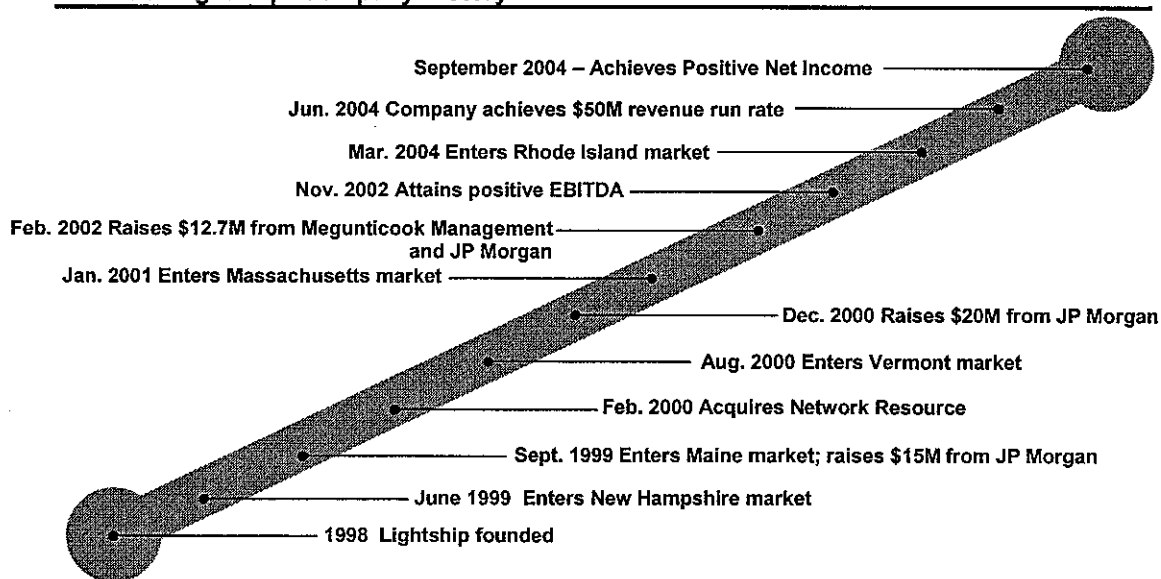
Confidential

IV. Lightship Telecom

A. Company History

Since its formation in 1998 and continuing through the heart of the telecom downturn, Lightship has made rapid progress in establishing a comprehensive regional facilities-based network platform in the greater New England area with a strong focus on providing integrated T-1 service bundles that address customer needs of SMEs in its coverage area. The Company now has operations in five states, covering over 300 communities and 1.6 million addressable lines, and continues to grow market share in each of these markets.

Chart 5: Lightship: Company History



Amidst this growth, management has remained attentive to maintaining a profitable enterprise, as evidenced by Lightship's achievement of positive EBITDA and net income in 2002 and 2004, respectively.

B. Senior Management Team

Lightship's operational and financial success is a testament to the strength of a seasoned management team with exceptional experience in the telecommunications industry.

Kevin O'Hare, President and Chief Executive Officer

Kevin O'Hare is President and Chief Executive Officer, and a founder of Lightship Telecom. Prior to founding Lightship, Mr. O'Hare was President and Chief Executive Officer of US WATS, a \$50 million publicly-held long distance carrier. Mr. O'Hare also served as President of RCN's long distance company, and has served in various management positions within Rochester Telephone Corporation, spending over five years as a general manager of several of its



Confidential

independent local telephone companies located throughout New York State. Mr. O'Hare graduated with honors from Ithaca College in 1982, with a Bachelor of Science in Economics and Management. Mr. O'Hare was a Candidate for a Ph.D. in Economics at the Pennsylvania State University and spent three years teaching college level economics before entering the Telecommunications business.

Bill Wilson, *Executive Vice President and Chief Financial Officer*

Bill Wilson is Executive Vice President and Chief Financial Officer of Lightship Telecom. Mr. Wilson's experience as CFO of a number of rapidly growing communications and technology companies includes significant capital formation and numerous mergers and acquisitions experience. Prior to Lightship, Mr. Wilson was EVP and COO of Escient Technologies. He was also CFO of Xcom, a CLEC, prior to its sale to Level 3 Communications. From 1989 to 1998, Wilson was EVP and CFO of Arch Wireless, where he helped build a start-up wireless communications business into a billion dollar public company with more than six million subscribers in over 200 markets in 44 states. A CPA, Mr. Wilson holds a Bachelor of Arts from Luther College, a Master of Science in Accounting from Northeastern University and an MBA from Babson College.

Jeff Koester, *Executive Vice President and Chief Operating Officer*

Jeff Koester is Chief Operating Office of Lightship Telecom. Prior to Lightship, Mr. Koester held senior management positions with Vicorp/Precision Systems Incorporated, Conference-Call USA and Frontier Communications. As Chief Operations Officer of Conference-Call USA, Mr. Koester assisted in the sale and later merger of the company with Citizens Utilities. He has a Bachelor of Science in Electrical Engineering from the Rochester Institute of Technology and an MBA in Finance/Marketing from The Simon School at The University of Rochester.

Rainer Gawlick, *Executive Vice President, Marketing & Customer Relations*

Rainer Gawlick is Executive Vice President of Marketing & Customer Relations for Lightship Telecom. His responsibilities include Marketing, Customer Service, Service Repair and Regulatory Affairs.

Prior to Lightship, Mr. Gawlick was Vice President of Marketing for Aspen Technology where he helped the company transform from a tools provider to an enterprise software company. Mr. Gawlick was also with McKinsey & Company, where he advised clients in the electronics, telecommunications, biotechnology and software sectors on a broad range of strategic and organizational issues.

Mr. Gawlick holds a Ph.D. in Electrical Engineering and Computer Science from The Massachusetts Institute of Technology and a B.A. in Physics from University of California at Berkeley.

Richard Kendall, *Executive Vice President, Sales*

Rich Kendall has over 13 years of telecom experience in positions of successful sales leadership. Prior to joining Lightship, Mr. Kendall held senior sales management roles at Network Plus, where he was integral to the successful IPO and secondary public offerings of the company, which raised over \$300 million.



Confidential

As Senior Vice President of Sales, Mr. Kendall built a 500-person sales organization located in 18 cities along the East Coast. As Vice President of Sales and Director of North East Region Sales, he continued to drive record revenue growth and geographic expansion, while leading the sales team's successful evolution from a long distance focus to a competitive local exchange carrier focus in the late 1990's.

Previously, Mr. Kendall held positions at MCI and Fleet Bank. He has a BA in History and Government & Legal Studies from Bowdoin College.

Elizabeth Downey, Senior Vice President, Employee Relations

Liz Downey is Vice President of Employee Relations for Lightship Telecom. She is responsible for developing policy and directing and coordinating human resources activities such as employment, compensation, employee relations, benefits, and training and employee services. Prior to Lightship, Ms. Downey worked as the Director of Human Resources for US Watts/Capsule Communications. From 1995 - 1999, she was the General Manager for an international medical publisher. Ms. Downey holds a Masters in Business Administration and a Bachelor of Arts in Communications from Pennsylvania State University.

Rick Girardin, Vice President, Technology

Rick Girardin is Vice President of Technology for Lightship Telecom. Prior to joining Lightship, Mr. Girardin was president and founder of Net Resource, Inc., a New England-based Internet Services Provider that was acquired by Lightship in 2000. Prior to creating Net Resource, Mr. Girardin was responsible for Northeastern sales activity for Computers Etc., Inc.

Nick Zeitvogel Vice President, Customer Relations

Nick Zeitvogel is Vice President, Customer Relations for Lightship Telecom. Mr. Zeitvogel joined Lightship from Accenture, where he served in Process Consulting for the Communications industry segment. Previously, Mr. Zeitvogel consulted to Verizon, the former Bell Atlantic, as Program Manager for Bell's I/S organization, in projects related to state and federal approval for Long Distance services.

Mr. Zeitvogel was also Director of Technical Services for Conference Call USA, where he managed the MIS and Telecom departments. From 1987 until 1994, Mr. Zeitvogel held numerous I/S management positions with Global Crossing, the former RCI Long Distance. Mr. Zeitvogel has a Bachelor of Science in Mechanical Engineering from The University of Buffalo.

C. Legal

Lightship is not a party to any pending legal proceedings that management believes would, individually or in the aggregate, have a material adverse effect on its financial condition or results of operations.

D. Properties

Lightship is headquartered in Fort Washington, Pennsylvania with operational headquarters in Bedford, New Hampshire. The Company also leases offices and space in a number of locations,



Confidential

primarily for sales offices and network equipment installations. The following table on lists the Company's facilities, other than co-location facilities in Verizon wire offices, as of September 30, 2004:

Table 11: Lightship: Properties

<u>Location</u>	<u>Square Footage</u>	<u>Purpose</u>
Fort Washington, PA	7,498	Corporate Headquarters
Bedford, NH	24,535	Operational Headquarters
Manchester, NH	3,143	Switch Location
Portland, ME	7,996	Regional Sales Office and Switch Location
Providence, RI	3,593	Regional Sales Office
Williston, VT	5,448	Regional Sales Office and Switch Location
Waltham, MA	3,640	Regional Sales Office
Worcester, MA	6,835	Regional Sales Office and Switch Location
Springfield, MA	2,350	Regional Sales Office
Total	65,038	

E. Ownership

Lightship is principally owned by JP Morgan Partners and Megunticook Management. These shareholders have invested \$47.7 million in the Company in three private investment rounds since Lightship's founding in 1998. The table below summarizes the ownership percentages of all major shareholders and Lightship officers and employees.

Table 12: Lightship: Shareholders

<u>Shareholder</u>	<u>Ownership (Fully-Diluted)</u>
JP Morgan	54.6%
Megunticook	22.5%
Officers and Employees	18.8%
Other Investors	3.0%
Lenders (warrants)	1.2%

The Company also maintains an excellent working relationship with its sole lender, GE Capital Corporation. The material terms of the Company's existing credit facility are as follows:

Type:	Senior Secured Amortizing Term Loan
Outstanding Balance:	\$25.7 million as of September 30, 2004
Interest Rate:	LIBOR <i>plus</i> 4.75%
Final Maturity Date:	December 31, 2008

*Confidential*

V. Historical and Projected Financial Statements

A. Historical Financial Statements

Table 13: Lightship Holding, Inc.: Historical Income Statements

(Dollars in Thousands)

	For the fiscal year ended December 31,			
	2002	%	2003	%
Total Revenues	27,421	0.0%	42,756	0.0%
Total Cost of Goods Sold	14,490	52.8%	16,764	39.2%
Gross Margin	12,931	47.2%	25,992	60.8%
Operating Expenses	16,318	59.5%	20,558	48.1%
Operating cash flow (EBITDA)	(3,386)	-12.3%	5,434	12.7%
Adjusted EBITDA*	(2,691)	-9.8%	6,606	15.4%
Depreciation & Amortization	5,826	21.2%	6,827	16.0%
Operating Income (EBIT)	(9,212)	-33.6%	(1,393)	-3.3%
Interest Expense/(Income)	2,139	7.8%	2,324	5.4%
Pretax income	(11,352)	-41.4%	(3,717)	-8.7%
Provision for Taxes	0	0.0%	0	0.0%
Cumulative effect of change in accounting principle	0	0.0%	(544)	-1.3%
Net Income	<u>(11,352)</u>	-41.4%	<u>(4,261)</u>	-10.0%

* Pro forma for capitalization of internal costs of new customer provisioning



Confidential

Table 14: Lightship Holding, Inc.: Historical Balance Sheets*(Dollars in Thousands)*

	At December 31,			
	2002		2003	
ASSETS				
Current Assets:				
Cash	5,857	19.0%	5,807	19.1%
Accounts Receivable, net of allowance	3,303	10.7%	3,340	11.0%
Unbilled Revenues	1,047	3.4%	1,996	6.6%
Current Portion of Installation Charges, net	0	0.0%	556	1.8%
Prepaid Expenses	525	1.7%	619	2.0%
Total Current Assets	10,732	34.8%	12,317	40.6%
Property and Equipment:				
PP&E	29,667		34,214	
Less Accumulated Depreciation	(11,849)		(18,010)	
Net Property and Equipment	17,818	57.7%	16,204	53.4%
Long-Term Portion of Installation Charges, net	820	2.7%	566	1.9%
Debt Financing Costs, net	1,497	4.8%	1,247	4.1%
Total Assets	30,866	100.0%	30,334	100.0%
LIABILITIES				
Current Liabilities:				
Accounts Payable	3,392	11.0%	2,223	7.3%
Accrued Expenses	2,573	8.3%	5,227	17.2%
Current Portion of Long-Term Debt	87	0.3%	2,788	9.2%
Deferred Revenue	280	0.9%	783	2.6%
Total Current Liabilities	6,332	20.5%	11,021	36.3%
Long-Term Debt & Other Liabilities				
Long-Term Debt	26,246	85.0%	24,992	82.4%
Long-Term Portion of Deferred Revenue	0	0.0%	288	0.9%
Total Long-Term Liabilities	26,246	85.0%	25,280	83.3%
Total Liabilities	32,578	105.5%	36,300	119.7%
Equity				
Preferred Stock	3	0.0%	3	0.0%
Additional Paid-In Capital	52,306	169.5%	53,805	177.4%
Deferred Compensation	(16)	-0.1%	(6)	0.0%
Accumulated Earnings/(Deficit)	(54,005)	-175.0%	(59,768)	-197.0%
Total Stockholders' Equity	(1,712)	-5.5%	(5,966)	-19.7%
Total Liabilities and Stockholders' Equity	30,866	100.0%	30,334	100.0%



Confidential

Table 15: Lightship Holding, Inc.: Historical Statements of Cash Flow*(Dollars in Thousands)*

	For fiscal year ended December 31,	
	<u>2002</u>	<u>2003</u>
Cash Flow from Operations		
Net Income	(11,352)	(4,261)
Add (Deduct) items not affecting cash:		
Depreciation and Amortization	5,826	6,827
Amortization of Debt Issuance Costs	232	249
Bad Debt Expense	811	1,500
Other Non-Cash Items	14	7
 (Increase) / Decrease:		
Accounts Receivable	(2,009)	(1,537)
Unbilled Revenue	(491)	(949)
Prepaid Expenses	(62)	(94)
Increase / (Decrease):		
Accounts Payable	1,374	(1,335)
Deferred Revenue	89	791
Accrued Liabilities	(635)	1,442
 Net Cash from Operations	 (6,202)	 2,640
 Cash Flow from Investing Activities		
Purchase of Equipment	(3,538)	(3,150)
Payments for Installation Charges	(577)	(950)
Net Cash from Investing Activities	(4,114)	(4,099)
 Cash Flow from Financing Activities		
Long-Term Borrowing	2,256	1,501
Payment of Deferred Financing Costs	(349)	0
Proceeds from Sale of Preferred Stock	12,396	0
Repayment of Long-Term Borrowing	(182)	(92)
Net Cash from Financing Activities	14,121	1,410
 Beginning Cash	 2,051	 5,857
Net Increase/(Decrease) in Cash	 3,805	 (50)
 Ending Cash	 5,857	 5,807



Confidential

B. Projected Financial Statements**Table 16: Lightship Holding, Inc.: Projected Income Statements***(Dollars in Thousands)*

	For the fiscal year ended December 31,							
	2004E		2005E		2006E		2007E	
Revenue								
Recurring Revenue	30,444	61.1%	37,089	62.5%	45,603	60.4%	53,038	58.7%
Usage Based Revenue	7,837	15.7%	9,506	16.0%	12,455	16.5%	15,121	16.7%
CABS	10,750	21.6%	11,793	19.9%	15,579	20.6%	19,811	21.9%
Reciprocal Compensation	1,067	2.1%	1,281	2.2%	2,120	2.8%	2,711	3.0%
Allowances Given	(278)	-0.6%	(331)	-0.6%	(219)	-0.3%	(265)	-0.3%
Total Revenues	49,820	100.0%	59,339	100.0%	75,538	100.0%	90,417	100.0%
Total Cost of Goods Sold	20,924	42.0%	24,953	42.1%	30,970	41.0%	36,456	40.3%
Gross Profit	28,895	58.0%	34,386	57.9%	44,568	59.0%	53,961	59.7%
Operating Expenses	20,883	41.9%	22,564	38.0%	26,212	34.7%	28,330	31.3%
Operating Cash Flow (EBITDA)	8,013	16.1%	11,822	23.7%	18,357	24.3%	25,630	28.3%
Adjusted EBITDA*	9,375	18.8%	13,252	26.6%	19,858	26.3%	27,207	30.1%
Depreciation & Amortization	7,494	15.0%	8,364	14.1%	9,868	13.1%	11,487	12.7%
Operating Income (EBIT)	518	1.0%	3,458	5.8%	8,488	11.2%	14,143	15.6%
Interest Expense/(Income)	2,164	4.3%	1,752	3.0%	1,311	1.7%	864	1.0%
Pretax Income	(1,646)	-3.3%	1,706	2.9%	7,177	9.5%	13,279	14.7%
Taxes	1	0.0%	145	0.2%	610	0.8%	1,129	1.5%
Net Income	(1,647)	-3.3%	1,561	2.6%	6,567	8.7%	12,150	13.4%

* Pro forma for capitalization of internal costs of new customer provisioning



Confidential

Table 17: Lightship Holding, Inc.: Projected Balance Sheets

(Dollars in Thousands)

	At December 31,							
	2004E		2005E		2006E		2007E	
ASSETS								
Current Assets:								
Cash	3,728	14.5%	2,892	10.5%	4,234	14.8%	13,223	37.4%
Accounts Receivable, net of allowance	4,998	19.4%	5,264	19.2%	6,146	21.4%	6,588	18.6%
Prepaid Expenses	1,486	5.8%	1,486	5.4%	1,486	5.2%	1,486	4.2%
Total Current Assets	10,212	39.7%	9,642	35.1%	11,866	41.3%	21,297	60.2%
Property and Equipment:								
PP&E	37,990		47,946		56,028		64,014	
Less Accumulated Depreciation	(24,751)		(32,093)		(40,649)		(50,535)	
Net Property and Equipment	13,240	51.4%	15,853	57.8%	15,379	53.6%	13,479	38.1%
Long-Term Portion of Installation Charges, net	1,063	4.1%	974	3.5%	740	2.6%	121	0.3%
Other Assets	1,219	4.7%	967	3.5%	715	2.5%	463	1.3%
Total Assets	25,734	100.0%	27,436	100.0%	28,701	100.0%	35,361	100.0%
LIABILITIES								
Current Liabilities:								
Accounts Payable	4,380	17.0%	4,793	17.5%	5,541	19.3%	5,860	16.6%
Accrued Expenses	2,814	10.9%	3,307	12.1%	3,903	13.6%	4,338	12.3%
Current Portion of Long-Term Debt	5,547	21.6%	6,240	22.7%	6,240	21.7%	6,934	19.6%
Current Portion of Capital Lease	718	2.8%	407	1.5%	3	0.0%	0	0.0%
Total Current Liabilities	13,459	52.3%	14,747	53.8%	15,688	54.7%	17,131	48.4%
Long-Term Debt & Other Liabilities								
Long-Term Debt	19,415	75.4%	13,174	48.0%	6,934	24.2%	0	0.0%
Long-Term Portion of Capital Lease	410	1.6%	3	0.0%	0	0.0%	0	0.0%
Total Long-Term Liabilities	19,825	77.0%	13,177	48.0%	6,934	24.2%	0	0.0%
Total Liabilities	33,283	129.3%	27,924	101.8%	22,622	78.8%	17,131	48.4%
Equity								
Preferred Stock	3		3		3		3	
Additional Paid-In Capital	53,868		59,368		59,368		59,368	
Deferred Compensation	(6)		(6)		(6)		(6)	
Accumulated Earnings/(Deficit)	(61,414)		(59,854)		(53,286)		(41,136)	
Total Stockholders' Equity	(7,549)	-29.3%	(489)	-1.8%	6,079	21.2%	18,229	51.6%
Total Liabilities and Stockholders' Equity	25,734	100.0%	27,436	100.0%	28,701	100.0%	35,361	100.0%



Confidential

Table 18: Lightship Holding, Inc.: Projected Statements of Cash Flow*(Dollars in Thousands)*

	For fiscal year ended December 31,			
	2004E	2005E	2006E	2007E
Cash Flow from Operations				
Net Income	(1,647)	1,561	6,567	12,150
Add (Deduct) items not affecting cash:				
Depreciation and Amortization	7,494	8,364	9,868	11,487
(Increase) / Decrease:				
Accounts Receivable	374	(266)	(882)	(442)
Loan Origination Fees	28	252	252	252
Prepaid Expenses	(904)	0	0	0
Increase / (Decrease):				
Accounts Payable	1,086	413	748	318
Accrued Liabilities	(2,413)	493	597	435
Net Cash from Operations	4,019	10,817	17,151	24,201
Cash Flow from Investing Activities				
Purchase of Equipment	(3,777)	(9,955)	(8,083)	(7,986)
Payments for Installation Charges	(695)	(932)	(1,079)	(982)
Net Cash from Investing Activities	(4,472)	(10,888)	(9,161)	(8,968)
Cash Flow from Financing Activities				
Additional Paid-In Capital	64	5,500	0	0
Repayment of Short-Term Borrowing	704	(311)	(403)	(3)
Repayment of Long-Term Borrowing	(2,394)	(5,954)	(6,244)	(6,240)
Net Cash from Financing Activities	(1,627)	(765)	(6,647)	(6,244)
Beginning Cash	5,807	3,728	2,892	4,234
Net Increase/(Decrease) in Cash	(2,079)	(836)	1,342	8,989
Ending Cash	3,728	2,892	4,234	13,223



Confidential

B. Quarterly Projected Financial Statements

Table 19: Lightship Holding, Inc.: Projected Income Statements – Quarterly

(Dollars in Thousands)

	1Q04A	2Q04A	3Q04A	4Q04E	1Q05E	2Q05E	3Q05E	4Q05E
Revenue								
Recurring Revenue	6,987	7,382	7,811	8,264	8,612	9,029	9,454	9,995
Usage Based Revenue	1,895	1,934	1,952	2,056	2,158	2,278	2,461	2,609
CABS	2,760	2,858	2,470	2,663	2,798	2,954	2,917	3,124
Reciprocal Compensation	258	280	254	275	289	305	332	356
Allowances Given	(58)	(86)	(61)	(73)	(77)	(81)	(84)	(89)
Total Revenues	11,842	12,368	12,426	13,184	13,779	14,484	15,080	15,995
Total Cost of Goods Sold	5,165	5,199	5,088	5,472	6,056	6,003	6,258	6,635
Gross Profit	6,677	7,169	7,338	7,711	7,723	8,481	8,822	9,360
Gross Margin	56.4%	58.0%	59.1%	58.5%	56.1%	58.6%	58.5%	58.5%
Operating Expenses	5,230	5,415	5,121	5,117	5,124	5,458	5,853	6,128
Operating Cash Flow (EBITDA)	1,447	1,754	2,217	2,594	2,599	3,023	2,969	3,231
EBITDA Margin	12.2%	14.2%	17.8%	19.7%	18.9%	20.9%	19.7%	20.2%
Adjusted EBITDA *	1,784	2,085	2,578	2,927	2,952	3,371	3,348	3,581
Adjusted EBITDA Margin	15.1%	16.9%	20.7%	22.2%	21.4%	23.3%	22.2%	22.4%
Depreciation & Amortization	1,862	1,928	1,929	1,776	1,880	2,112	2,144	2,228
Operating Income (EBIT)	(414)	(174)	288	818	719	911	825	1,004
Interest Expense/(Income)	554	538	600	472	473	445	431	403
Pretax Income	(968)	(712)	(311)	346	246	466	393	601
Taxes	0	0	1	0	21	40	33	51
Net Income	(968)	(712)	(312)	346	225	426	360	550

* Pro forma for capitalization of internal costs of new customer provisioning



Confidential

Table 20: Lightship Holding, Inc.: Projected Statements of Cash Flow - Quarterly*(Dollars in Thousands)*

	1Q04A	2Q04A	3Q04A	4Q04E	1Q05E	2Q05E	3Q05E	4Q05E
Cash Flow from Operations								
Net Income	(968)	(712)	(312)	346	225	426	360	550
Add (Deduct) items not affecting cash:								
Depreciation and Amortization	1,862	1,928	1,929	1,776	1,880	2,112	2,144	2,228
(Increase) / Decrease:								
Accounts Receivable	481	60	223	(389)	(167)	(20)	183	(262)
Loan Origination Fees	(74)	(45)	84	63	63	63	63	63
Prepaid Expenses	(262)	(224)	(418)	0	0	0	0	0
Increase / (Decrease):								
Accounts Payable	1,108	717	(395)	(344)	(153)	16	89	461
Accrued Liabilities	(1,721)	(921)	520	(291)	29	165	167	131
Net Cash from Operations	425	802	1,631	1,162	1,878	2,762	3,007	3,170
Cash Flow from Investing Activities								
Purchase of Equipment	(1,209)	(863)	(738)	(967)	(5,809)	(1,150)	(1,278)	(1,718)
Payments for Installation Charges	(178)	(176)	(124)	(217)	(194)	(222)	(233)	(283)
Net Cash from Investing Activities	(1,387)	(1,039)	(861)	(1,184)	(6,004)	(1,372)	(1,511)	(2,001)
Cash Flow from Financing Activities								
Additional Paid-in Capital	0	64	(0)	0	5,500	0	0	0
Repayment of Short-Term Borrowing	1	574	126	3	17	38	(181)	(185)
Repayment of Long-Term Borrowing	(697)	186	(991)	(891)	(1,577)	(1,602)	(1,388)	(1,388)
Net Cash from Financing Activities	(697)	823	(865)	(888)	3,940	(1,564)	(1,568)	(1,573)
Beginning Cash	5,807	4,148	4,733	4,637	3,728	3,541	3,368	3,295
Net Increase/(Decrease) in Cash	(1,659)	586	(96)	(910)	(186)	(174)	(72)	(403)
Ending Cash	4,148	4,733	4,637	3,728	3,541	3,368	3,295	2,892



Confidential

Table 21: Lightship Holding, Inc.: Projected Balance Sheets - Quarterly

(Dollars in Thousands)

	1Q04A	2Q04A	3Q04A	4Q04E	1Q05E	2Q05E	3Q05E	4Q05E
ASSETS								
Current Assets:								
Cash	4,148	4,733	4,637	3,728	3,541	3,368	3,295	2,892
Accounts Receivable, net of allowance	4,892	4,833	4,610	4,998	5,166	5,186	5,003	5,264
Prepaid Expenses	844	1,068	1,486	1,486	1,486	1,486	1,486	1,486
Total Current Assets	9,884	10,634	10,733	10,212	10,193	10,039	9,784	9,642
Property and Equipment:								
PP&E	35,423	36,286	37,024	37,990	43,800	44,950	46,228	47,946
Less Accumulated Depreciation	(19,681)	(21,436)	(23,190)	(24,751)	(26,399)	(28,264)	(30,146)	(32,093)
Net Property and Equipment	15,742	14,850	13,834	13,240	17,401	16,686	16,082	15,853
Long-Term Portion of Installation Charges, net	1,109	1,113	1,061	1,063	1,025	1,000	971	974
Other Assets	1,321	1,366	1,282	1,219	1,156	1,093	1,030	967
Total Assets	28,056	27,963	26,910	25,734	29,776	28,819	27,867	27,436
LIABILITIES								
Current Liabilities:								
Accounts Payable	4,402	5,119	4,724	4,380	4,227	4,243	4,332	4,793
Accrued Expenses	3,506	2,585	3,105	2,814	2,843	3,008	3,176	3,307
Current Portion of Long-Term Debt	3,467	4,160	4,854	5,547	5,720	5,894	6,067	6,240
Current Portion of Capital Lease	15	589	714	718	735	773	592	407
Total Current Liabilities	11,389	12,452	13,396	13,459	13,526	13,917	14,167	14,747
Long-Term Debt & Other Liabilities								
Long-Term Debt	23,575	22,188	20,801	19,415	17,854	16,294	14,734	13,174
Long-Term Portion of Capital Lease	27	906	608	410	220	5	4	3
Total Long-Term Liabilities	23,601	23,094	21,410	19,825	18,074	16,299	14,738	13,177
Total Liabilities	34,991	35,546	34,806	33,283	31,600	30,217	28,905	27,924
Equity								
Preferred Stock	3	3	3	3	3	3	3	3
Additional Paid-In Capital	53,805	53,868	53,868	53,868	59,368	59,368	59,368	59,368
Deferred Compensation	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Accumulated Earnings/(Deficit)	(60,736)	(61,448)	(61,761)	(61,414)	(61,189)	(60,763)	(60,403)	(59,854)
Total Stockholders' Equity	(6,935)	(7,583)	(7,896)	(7,549)	(1,824)	(1,398)	(1,038)	(489)
Total Liabilities and Stockholders' Equity	28,056	27,963	26,910	25,734	29,776	28,819	27,867	27,436



Confidential

Appendices

A. Financial Projection Assumptions

Revenue

Line Growth. Line growth will continue to be driven primarily through the direct sales force. The Company's direct sales force is forecast to continue to perform above its peer group as a result of its in-depth knowledge of its customer base and ability to deliver a superior product offering. Lightship's overall line growth will also benefit from the following:

- Further penetration of the Rhode Island market, launched in 2004;
- Ability to service an increasing number of businesses at a lower cost as a result of the expansion of the number co-location facilities; and
- Enhanced product suite (DSL offerings and repackaged T-1 offering)

<u>Direct Sales</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Direct Sales Reps	57	61	66	68
Avg. Monthly Access Line per Rep	53	53	53	53
Avg. Lines from Direct Sales	3,043	3,233	3,500	3,600

Lightship has initiatives in place to achieve additional revenue via its agent channel. As discussed in section III.F., "Strategic Initiatives," the bulk of all new DSL lines to be marketed at a lower price point than the traditional T-1 product will be sold via the agent channel.

Incremental Revenue. Lightship estimates that as a result of its expanded network, it will be able to significantly grow top line revenue because of its lower cost structure and deeper network coverage. A summary of the additional revenue opportunities is detailed below:

- **CABS.** As a result of bringing a significant number of lines on-net and thus increasing the traffic that remains on the expanded network, Lightship estimates it will generate meaningful additional monthly revenue.
- **DSL Products.** The addition of DSL provisioning will enable Lightship to provide service to smaller customers who do not yet require a traditional T-1 product. The Company estimates that it could sell 1,200 of these smaller DSL lines per month.
- **Repackaged T-1.** Due to the lower cost structure offered via DSL and the expanded co-location network, Lightship will repackage its existing T-1 offering at a lower price point which it estimates would generate approximately an additional 500 incremental lines per month.

Churn. As a result of its superior customer service and excellent provisioning metrics, the Company will continue to drive very low monthly churn rates. Churn is forecast to improve slightly from 1.3% to 1.2% as Lightship continues to focus on customer loyalty programs and enhanced credit screening. In addition, as a result of its efficient provisioning and sales processes, Lightship's pre-install churn rate (the number of customers declining service prior to receipt of first billing) for the last twelve months was well under the industry average. The forecast incorporates the current run rate of 4.5% going forward.



Confidential

Pricing. Management believes that as alternative delivery methods of data service become more prevalent (DSL, cable, etc.), customers will seek the lowest cost alternative, driving down prices. Lightship's average revenue per line will also be negatively impacted with the renewals of existing customers currently under higher priced contracts at lower prices. In line with these expectations, the Company has built in the following price declines:

Pricing Breakdown	2004	2005	2006	2007
Monthly Access Charge	\$34.20	\$30.32	\$27.41	\$25.51
YoY % Change		-11.3%	-9.3%	-6.9%
Avg. Price per Minute	\$0.0290	\$0.0283	\$0.0276	\$0.0269
YoY % Change		-2.43%	-2.41%	-2.34%
Avg. Revenue Per Line	\$56.27	\$48.63	\$45.53	\$43.62
YoY % Change		-13.6%	-6.4%	-4.2%

Cost of Sales

Gross Margins. Due to its bundled T-1 facilities-based serving strategy, Lightship has created an excellent cost structure that generates industry leading margins. As previously detailed, the Company has launched the following initiatives to further enhance its cost structure:

- (1) Expanding its network and moving more customers on-net;
- (2) Migrating toward DSL as the dominant provisioning method; and
- (3) Utilizing EELs whenever beneficial.

As a result, despite pricing pressures, Lightship forecasts that its gross margins will remain relatively flat over the projection period, moving from 58% in 2004 to approximately 59% in 2007.

Cost of Sales	2004	2005	2006	2007
Gross Margin	58.00%	57.95%	59.00%	59.68%
YoY Change		(0.1%)	1.8%	1.1%

Operating Expenses

Headcount and Employee-related Costs. As evidenced by its operating margins that are well above those of much larger competitors, Lightship has created an attractive operating structure, with low overhead and an efficient back office. Management believes it can continue to grow top line revenue under the current platform while also beginning to enjoy some benefits of scale. Lightship's financial forecast calls for the addition of 17 employees over the next three years to accommodate the additional workload caused by growth and customer additions. One half of the additional staff will be directed toward the Company's sales efforts while the remainder will be allocated to operations and marketing.

The Company has built in modest increases to employee-related costs to account for additional heads and average cost of living increases. Employee-related costs are expected to decrease

*Confidential*

slightly as a percentage of revenue as the Company begins to recognize the benefits of increased scale.

Employee Costs	2004	2005	2006	2007
Total Headcount	203	213	220	220
Additions	20	10	7	0
Employee Exp. (as % of revenue)	29.0%	26.4%	23.9%	21.0%

Other Expenses. The Company has forecast additional expenses to increase as required to sustain the anticipated line and revenue growth. Non-employee expenses are forecast to represent 12.9% of total revenue in 2004, reducing to 10.3% by 2007.

Capital Expenditures

In addition to the fixed capital required for each incremental customer addition, the Company has allocated approximately \$5.5 million to the expansion of its co-location footprint throughout New England. Lightship also has allocated approximately \$4.0 million for the rollout of VoIP and other components of next generation networks, evenly spread through 2006 and 2007. However, for the sake of conservatism, the Company has not modeled the incremental revenue benefits that would accompany such an investment.

Capex	2004	2005	2006	2007
Line Driven Expenditures	2,772,723	4,514,942	5,632,017	5,435,335
Infrastructure	1,003,493	5,440,500	2,450,500	2,550,500
Network Installation Costs	695,125	932,240	1,078,793	982,095
Total Capex	4,471,341	10,887,682	9,161,310	8,967,931